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P 161706Z DEC 74

FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS PRIORITY

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FOLLOWING SENT BONN BRUSSELS COPENHAGEN DUBLIN LONDON
LUXEMBOURG PARIS ROME THE HAGUE GENEVA MOSCOW BUCHAREST
TOKYO OTTAWA CANBERRA LISBON OECD PARIS USUN NEW YORK
FROM SECSTATE WASHDC 13 DEC 74:

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E.O. 11652: N/A

TAGS: EEC, ETRD# EAGR, ENGR

SUBJECT: US-EC CONSULTATIONS: REPORT OF PLENARY, OFFICIAL
LEVEL, AND BILATERAL MEETINGS

1. SUMMARY: EC COMMISSIONER FOR EXTERNAL RELATIONS
SIR CHRISTOPHER SOAMES LED EC DELEGATION TO WASHINGTON
DECEMBER 5-6 FOR NINTH ROUND OF THE SEMI-ANNUAL US-EC
CONSULTATIONS. AN INTERAGENCY PLENARY SESSION, CHAIRED
ON US SIDE BY DEPUTY SECRETARY INGERSOLL, ALLOWED A FULL
EXCHANGE OF VIEWS ON A WIDE RANGE OF CURRENT ECONOMIC AND
POL IIALWXECONOMIC ISSUES# PARTICIPATING IN THIS SESSION,
IN ADDITION TO STATE, WERE REPRESENTATIVES OF NSC, CIEP
CEA, STR, TREASURY,
LEA URY, COMMERCE, USIA# AND LABOR. DEPUTY
SECRETARY INGERSOLL HOSTED A WORKING LUNCH ON DECEMBER 5.
SOAMES ALSO MET SEPARATELY WITH SECRETARIES KISSINGER,
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BUTZ AND SIMON, WHITE HOUSE AIDES SEIDMAN AND RUMSFELD

AND ASSISTANT SECRETARY HARTMAN. IN ADDITION, AN OFFICIAL LEVEL SESSION, LARGELY DEVOTED TO BILATERAL TRADE ISSUES, TOOK PLACE MORNING DECEMBER 6, CHAIRED BY AMBASSADOR MALMGREN AND EB DEPUTY ASSISTANT SECRETARY LITMAN FOR US SIDE AND WELLENSTEIN FOR EC. SIDE TALKS WERE ALSO HELD ON SPECIFIC ISSUES. SOAMES AND INGERSOLL HELD A JOINT PRESS CONFERENCE ON DECEMBER 6.

-- PRINCIPAL CONCLUSIONS AND FOLLOW-UP AGREEMENTS. THE TWO DAYS DISCUSSIONS PROVIDED AN OPPORTUNITY FOR A COMPLETE EXCHANGE OF VIEWS ON MOST OF THE CURRENT ISSUES

OF INTEREST TO THE TWO SIDES. ON THE BROAD VIEWS, THERE WAS AN INFORMAL AND FRANK EXCHANGE WHICH FURTHERED UNDERSTANDING OF BASIC POSITIONS. ON SPECIFIC PROBLEMS, DISCUSSION PRODUCED THE FOLLOWING:

-- ON ENERGY, THE EC SIDE PRESSED FOR AN EARLY PRODUCER-CONSUMER DIALOGUE AND INDICATED IT COULD MAKE ITS LONG-TERM PLANNING FOR URANIUM ENRICHMENT TOWARD THE US SHORTLY.

-- ON GRAINS IT WAS NOTED THAT THE LEVEL OF EXPORTS OF US CORN TO THE COMMUNITY OVER THE PAST FOUR MONTHS, IF PROJECTED OVER THE ENTIRE CROP YEAR, WOULD PRODUCE A SATISFACTORY TOTAL US EXPORT FIGURE; BOTH SIDES AGREED TO CONSULT IMMEDIATELY WHERE EXPECTATIONS TO CHANGE.

-- AS PART OF THE WFC FOLLOW-UP, THE US SIDE SOUGHT EC AGREEMENT TO EARLY MEETINGS OF BOTH THE EXPORTERS GROUP AND RESERVE COORDINATION GROUP; BOTH SIDES AGREED THAT QUESTION OF RELATIONSHIP BETWEEN THE RESERVE COORDINATION GROUP AND THE MTN NEEDS TO BE FURTHER EXAMINED.

-- A LONG SERIES OF MEETINGS PRODUCED PROGRESS ON BOTH SHORT-TERM AND LONG-TERM ASPECTS OF THE DAIRY PROBLEM (SEE SEPTEL).

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-- BOTH SIDES ACCEPTED THE NEED FOR FURTHER STUDY AND DISCUSSION OF ACTUAL AND POTENTIAL IMPEDIMENTS TO US-EC TRADE IN WINE.

-- THE EC SIDE ACCEPTED A US REQUEST FOR TECHNICAL LEVEL DISCUSSIONS ON POULTRY AND PROMISED TO LOOK FURTHER INTO A NEW PROBLEM INVOLVING EC EXPORT SUBSIDIES ON APPLES.

-- BOTH SIDES AGREED TO MEET TO DISCUSS CERTAIN TRADE
ISSUES IN BRUSSELS
PRIOR TO JANUARY 21 GENEVA MEETING.

-- BOTH SIDES AGREED
ON CONTINUING NEED TO CONSULT
CLOSELY ON LDC-RELATED ISSUES IN UN. END SUMMARY.

3. FOLLOWING SUMMARIZES EXCHANGE ON SPECIFIC AGENDA
ITEMS:

A. US ECONOMY. CEA CHAIRMAN GREENSPAN BRIEFLY REVIEWED
USG EXPECTATIONS ABOUT THE US ECONOMY--CONCLUDING WITH
THE SUMMARY STATEMENT THAT "THE SIX MONTH OUTLOOK IS VERY
POOR." IT IS A MIXED PICTURE, BUT THE ECONOMY IS CLEARLY
SLIPPING: UNEMPLOYMENT WILL BE UP, PRODUCTION LEVELS ARE
FALLING AND THE CAPITAL GOODS MARKET IS WEAKENING. A
POSITIVE RESULT IS THAT SOME IMPROVEMENT IS NOW BEING
MADE IN THE INFLATION FRONTIER. THE RATE OF PRICE INFLATION
ON THE INDUSTRIAL SIDE IS CLEARLY FALLING OFF. WE ARE
SEEING AN ADJUSTMENT PROCESS WHICH IS PROCEEDING AT A
MORE RAPID PACE THAN WAS EARLIER ANTICIPATED AND WHICH
IS LIKELY TO CONTINUE UNTIL THE SPRING OF 1975.

THE REAL ISSUE IS NOT INFLATION VS. RECESSION. THERE
IS A MALAISE IN THE ECONOMY THAT CONSISTS OF THESE TWO
ELEMENTS. UNCERTAINTY IS THE REAL ECONOMIC DISEASE AND
A MIX OF POLICIES IS NEEDED
TO RESTORE THE
CONFIDENCE
OF CONSUMERS AND INVESTORS. BEYOND SIX MONTHS WE SEE
SIGNS OF RECOVERY; INVENTORIES BY THEN SHOULD BE LOW,
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AUTO PRODUCTION SHOULD BE RECOVERING AND THE EVIDENCE
BEGINS TO SUGGEST THAT THE HOMEBUILDING MARKET IS
ALREADY BOTTOMING OUT. THESE ELEMENTS ARE A MODEST PART
OF THE TOTAL GNP, BUT A LARGE PART OF THE CHANGING
ELEMENT OF THE GNP.

WE NEED A SET OF FINANCIAL POLICIES WHICH WILL PRODUCE
A PHASED, BALANCED RECOVERY THAT WILL BE GOOD FOR BOTH
THE US AND EC BUT WE MUST ACHIEVE THIS WITHOUT CAUSING
A REACCELERATION OF INFLATION IN THE SPRING OF 1976.
SOAMES SAID THE EC SITUATION IS MORE COMPLEX--THERE ARE
NINE SETS OF PROBLEMS. IN GENERAL, HOWEVER, THE
"SITUATION HAS DETERIORATED IN LAST NINE MONTHS" AND THE
ECONOMIC DISPARITY BETWEEN THE NINE HAS INCREASED. EC
WILL BE LIVING WITH AN "UNACCEPTABLE" LEVEL OF INFLATION

FOR THE NEXT SIX MONTHS AND A MAJOR QUESTION IS HOW POPULATIONS WILL REACT.

THE EC SIDE ASKED, (A) WHETHER THE COAL SETTLEMENT WAS REALLY 60 PERCENT OVER THREE YEARS IMPLYING IT WOULD BE HIGHLY INFLATIONARY) AND (B) HOW SAVINGS LEVELS MIGHT GO - WHETHER PEOPLE MIGHT NOT SEE SAVINGS NEGATIVELY BECAUSE RATE OF INFLATION EXCEEDED INTEREST RATE.

GREENSPAN NOTED (A) REAL SIZE OF COAL SETTLEMENT IS STILL UNCLEAR BUT IT WILL BE SUBSTANTIAL; WAGE TRENDS HAVE NOT BEEN THAT PESSIMISTIC RECENTLY AND IN ANY EVENT UNION WAGE SETTLEMENTS DON'T PULL TOWARDS INFLATION SO MUCH IN THE U.S. (WHERE ONLY 22 PERCENT OF LABOR FORCE IS COVERED BY UNION CONTRACTS) AS IN EUROPE (WHERE MAJORITY OF LABOR FORCE IS UNION); (B) INFLATION DOESN'T SEEM TO BE A REAL DETERRENT TO SAVINGS (THE RATE IS STILL HIGH AND RISING) BECAUSE SAVERS ARE MORE CONCERNED WITH CAPITAL PROTECTION THAN ACCUMULATION.

4. ENERGY. EC SIDE (SOAMES) STRESSED THE IMPORTANCE OF THE U.S. REALIZING THAT THE COMMUNITY FACES A MUCH HIGHER DEPENDENCY ON IMPORTED OIL; BUT HE CONCENTRATED HIS EFFORTS ON MAKING A CASE FOR FIXING A DATE, EVEN IF WELL LIMITED OFFICIAL USE

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IN THE FUTURE, FOR A CONSUMER-PRODUCER CONFERENCE. THE EC SIDE ARGUED THAT THERE IS NEED TO FIX ROUGH DATE AND START A DIALOGUE BY TALKING AT THE WORKING LEVEL. FIXING A DATE WELL IN ADVANCE COULD MEET THE NEED FOR ADEQUATE PREPARATION AND COORDINATION OF CONSUMER POSITIONS. THE EC URGED THAT THE US NOT GET "HUNG UP" ON THE ISSUE OF A MINISTERIAL. IN RESPONSE TO US QUESTIONING ON WHETHER A SCHEDULE IS MORE IMPORTANT THAN WHAT WILL BE SAID, THE EC SIDE SAID NO BUT IT WOULD HELP

TO FOCUS CONSUMER EFFORTS. EC PARTICIPANTS IMPLIED DURING THEIR PRESENTATION THAT THE US PAYS ONLY LIP SERVICE TO THE IDEA OF A CONSUMER-PRODUCER DIALOGUE WHILE REALLY SEEKING ONLY CONSUMER SOLIDARITY. KATZ DESCRIBED IN SOME DETAIL US POSITIONS AND ACTIONS, BEGINNING WITH THE WASHINGTON ENERGY CONFERENCE, TO DEMONSTRATE THAT OUR POSITION HAS BEEN AND REMAINS CONSUMER SOLIDARITY WHILE FULLY ACCEPTING THE NEED FOR A CONSUMER-PRODUCER DIALOGUE AFTER GREATER SOLIDARITY HAS BEEN EFFECTIVELY ACHIEVED.

CONSIDERABLE PROGRESS HAS BEEN MADE ON EMERGENCY CONTINGENCY MEASURES AND WE NOW NEED TO GET ON WITH LONG-TERM CTOPERATION PROGRAMS. A PREVIEW OF WHAT A PREMATURE CONSUMER-PRODUCER MEETING COULD BE LIKE WAS SEEN AT THE UNT SPECIAL SESSION

IN APRIL -- THIS WAS A DIALOGUE IN WHICH THE CONSUMERS WENT OFF IN DIFFERENT DIRECTIONS. IN THE US VIEW THE

ARE DIALOGUES NOW THAT PROVIDE TWO-WAY EXCHANGES OF INFORMATION IN BILATERAL CONTEXTS, BUT COLLECTIVELY AS

CONSUMERS WE HAVE NOT DONE ENOUGH TO BE READY. THE EC PROBED ON THE MEANING OF ASSISTANT SECRETARY ENDERS' COMMENTS AT YALE ABOUT DOWNSIDE RISK AND THE NEED FOR INVESTMENT PROTECTION IN A POSSIBLE TWO-TIER OIL/ENERGY PRICING ARRANGEMENT. US SIDE NOTED THAT OUR POSITION HAS NOT BEEN FIRMLY DECIDED. WE ARE PROCEEDING PRUDENTLY ON ASSUMPTION THAT INTERNATIONAL OIL PRICES MAY REMAIN HIGH, BUT THAT WE WOULD NEED PROTECTION FOR DOMESTIC INVESTMENTS. LIMITED OFFICIAL USE

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ENDERS' COMMENTS DESCRIBED ONE OF SEVERAL POSSIBLE WAYS TO PROTECT INVESTMENT. WE COULD FIND OURSELVES IN A SITUATION OF LOWER INTERNATIONAL PRICES AND HIGHER PROTECTED DOMESTIC PRICES.

IN DESCRIBING COMMUNITY ENERGY DEVELOPMENTS SOAMES AND SPAAK WERE HOPEFUL THAT EC SUMMIT WOULD MAKE PROGRESS TOWARD HARMONIZING INTERNAL POLICIES, ESPECIALLY REGARDING A CONSUMER-PRODUCER MEETING, AND TOWARD INTERNATIONAL COOPERATION. EC SIDE EXPLAINED IN SOME DETAIL THE CORRESPONDENCE BETWEEN US PAPER ON LONG-TERM COOPERATION STEPS TABLED AT FIRST IEA GOVERNING BOARD MEETING AND SIMILAR STEPS ALREADY BEGUN OR PROPOSED IN COMMUNITY.

5. URANIUM ENRICHMENT. THERE WAS BRIEF EXCHANGE ON THE STATUS OF US URANIUM ENRICHMENT CAPABILITIES AND THE IMPLICATIONS FOR EUROPE OF THE US POLICY OF PRIVATIZATION. THE US SIDE NOTED THAT US PRIVATE INDUSTRY IS CLOSE TO MAKING SOME DECISIONS ON BUILDING NEW ENRICHMENT CAPACITY, BUT IN ANY EVENT WE CONTINUE TO BE BOUND BY THE PRESIDENTIAL COMMITMENT THAT THE US WILL REMAIN A RELIABLE SUPPLIER OF ENRICHMENT SERVICES. IN RESPONSE TO A QUESTION, SPAAK SAID THE COMMISSION WOULD SOON PROPOSE TARGETS FOR COMMUNITY-BASED ENRICHMENT CAPACITY. THE US SIDE WELCOMED HIS OFFER TO SHARE THIS INFORMATION WITH US AS BEING HELPFUL IN ELABORATING U.S. PLANS IN THIS FIELD.

6. TRADE BILL. US SIDE (EBERLE) DESCRIBED THE CURRENT STATUS OF THE TRADE BILL AND GAVE ASSESSMENT THAT THE SCENARIO WOULD BE A CLIFFHANGER BUT THAT WE WOULD GET A BILL PASSED. THE TWO PRIMARY PROBLEMS REMAIN FILIBUSTERS AND THE ATTACHMENT OF NON-GERMANE AMENDMENTS. SOAMES STATED HE HAD URGED PASSAGE IN HIS DISCUSSIONS WITH REPRESENTATIVE ULLMAN.

7. MTN. US SIDE (MALMGREN) SAID THE FEELING IN GENEVA IS THAT NEGOTIATIONS CAN START WITH A TNC MEETING AROUND FEBRUARY 11, 1975, AFTER PRELIMINARY TALKS IN JANUARY. THE LIMITED OFFICIAL USE

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MOOD IS RIGHT AND BOTH SIDES SEEM READY FOR A SUBSTANTIVE BEGINNING.

EC INDICATED IT HAS SET DECEMBER 19 AS THE DATE FOR THE NEXT COUNCIL OF MINISTERS DISCUSSION OF THE COMMISSION'S PROPOSAL FOR A MORE DETAILED MANDATE FOR THE NEGOTIATIONS. SOAMES NOTED THAT A SECOND MEETING IN JANUARY MIGHT BE NEEDED, BUT THIS STILL FITS WITH A FEBRUARY BEGINNING.

EBERLE WARNED THAT IF THE TRADE BILL FAILED THE BALL WOULD BE IN THE COMMUNITY'S COURT TO INITIATE STEPS FOR FURTHER DISCUSSIONS. SOAMES RESISTED THIS REASONING, SAYING IT WOULD HAVE BEEN THE US WHICH TORPEDOED TRADE NEGOTIATIONS AND NOT TO EXPECT MUCH INITIATIVE IN THE EC IF THE TRADE BILL FAILED.

8. WORLD FOOD CONFERENCE FOLLOW-UP. U.S. SIDE (KATZ) LED OFF DISCUSSION BY NOTING THAT WORLD FOOD CONFERENCE HAD ADOPTED A NUMBER OF US PROPOSALS, INCLUDING THAT FOR AN INTERNATIONAL FOOD RESERVE AND A RESERVES GROUP. U.S. WOULD HAVE PREFERRED CONFERENCE ALSO TO LAY OUT SOME OF PRINCIPLES AND AGENDA FOR THE RESERVES GROUP BUT THIS HAD NOT OCCURRED, PARTIALLY BECAUSE OF EC RELUCTANCE TO MOVE THAT QUICKLY. U.S. THINKING NOW FAVORS AN EARLY MEETING OF RESERVES GROUP, WHICH FOR TIME BEING SHOULD BE ON AN AD HOC BASIS, IN LATE JANUARY OR EARLY FEBRUARY. GROUP WOULD DISCUSS, WITHOUT COMMITMENTS, OUTLINES OF A RESERVES AGREEMENT AND THE TERMS AND VENUE FOR THE NEGOTIATIONS ON RESERVES. GROUP COULD MEET ON PREMISES OF INTERNATIONAL WHEAT COUNCIL, WHICH HAS A USEFUL SECRETARIAT, BUT WOULD NOT BE TIED TO IWC AT THIS POINT. U.S. BELIEVES GROUP SHOULD CONSIST OF MAJOR IMPORTERS AND EXPORTERS, NAMELY US, CANADA, AUSTRALIA, EC, ARGENTINA, JAPAN, USSR, INDIA, BRAZIL, EGYPT AND PERHAPS THAILAND AND ONE OR TWO OTHERS. U.S. ALSO PROPOSED THAT EXPORTER MEMBERS OF RESERVES GROUP

MEET IN ADVANCE AND, AT AUSTRALIA SUGGESTION, JUST BEFORE
RESERVES GROUP MEETING.

EC SIDE (SOAMES) STATED THAT IT CONSIDERED WORK ON
RESERVES AS AN IMPORTANT PART OF THE MTN. U.S. SIDE
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(EBERLE) AGREED INDICATING THAT ONE THING THAT SHOULD
COME OUT OF FIRST MEETING IS A CLEARER IDEA OF RELATION-
SHIP BETWEEN RESERVES GROUP AND THE MTN. EC SIDE
(RABOT) NOTED THAT EC WOULD NEED TO HAVE AN INTERNAL
DISCUSSION BEFORE IT COULD AGREE TO ATTEND THE LONDON
MEETING. RABOT ASKED WHETHER THE U.S. WAS NOT THINKING
ONLY OF A GRAIN RESERVE. U.S. SIDE (KATZ) REPLIED
AFFIRMATIVELY SAYING THAT IN THE END ONLY WHEAT MIGHT BE
INCLUDED. RABOT SAID THE COMMUNITY MIGHT LIKE TO INCLUDE
DAIRY AND PERHAPS OTHER COMMODITIES AS WELL. KATZ

INDICATED WE WOULD BE WILLING TO TAKE A LOOK AT ANY EC
SUGGESTIONS. RABOT CONCLUDED THIS PART OF THE
DISCUSSION BY SAY NG THAT GRAINS MIGHT BE DEVELOPED AS
A MODEL COMMODITY (PRODUIT PHARE). HE ALSO EXPRESSED
SKEPTICISM ABOUT THE POSSIBILITY OF RAPID INCREASES IN
LDC FOOD PRODUCTION.

DISCUSSION OF USSR AND PRC INTENTIONS VIS-A-VIS RESERVES
FOLLOWED. U.S. SIDE (KATZ) NOTED THAT FLUCTUATIONS IN
PRODUCTION IN INDIA AND USSR HAVE BEEN THE KEY INTER-
NATIONAL VARIABLES OVER THE PAST 20 YEARS. THE USSR
DOES HAVE SERIOUS HANG-UPS ON THE QUESTION OF EXCHANGE
OF INFORMATION THAT THEY FEEL CAN BE USED AGAINST THEM
IN COMMERICAL NEGOTIATIONS, BUT THAT
THERE MAY BE SOME
SLIGHT SIGNS OF MOVEMENT. WE JOLTED THEM LAST FALL
WITH THE IDEA THAT THEY COULD NO LONGER COME HERE AND
BUY AT WILL. MORE RECENTLY THE SOVIETS PROPOSED THE
CREATION OF A WORKING GROUP IN THE IWC TO DRAFT A NEW
GRAIN AGREEMENT. SOAMES INDICATED THAT INFORMATION
AVAILABLE TO HIM INDICATES THAT THE SOVIETS MAY BE
ACQUIRING STOCKS OF A NUMBER OF COMMODITIES INCLUDING
SUGAR, GRAINS AND DRIED MILK. US SIDE (FAS ADMINISTRATOR
HUME) INDICATED THAT OUR EVIDENCE IS THAT SOVIET GRAINS
PURCHASES HAVE BEEN FOR LIVESTOCK MAINTENANCE. US SIDE
INDICATED THAT RESERVE SYSTEM NEEDED TO INNHUDE
PENALTIES. WE HAVE TALKED ABOUT COOPERATORS AND
NON-COOPERATORS. WE HOPE THE SOVIETS WILL COOPERATE
BUT IF NOT THERE WILL HIVE TO BE SOME PENALTY. BOTH
SIDES AGREED THAT THE PRC IS MUCH FURTHER BEHIND THAN
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THE USSR ON RESERVES COORDINATION AND THAT ITS BEHAVIOR AT THE WFC WAS NON-CONSTRUCTIVE.

9. EC IMPORTS OF US FOOD GRAINS. SUBJECT OF FEED GRAIN IMPORTS WAS DISCUSSED DURING PLENARY AND IN SEPARATE MEETINGS WITH SECRETARIES BUTZ AND SIMON. IN PLENARY, US SIDE (INGERSOLL) MADE IT CLEAR THAT WE WERE EXPECTING THE EC TO TAKE NO MORE THAN 7.6 MILLION TONS OF FEED GRAINS, OF WHICH NO MORE THAN 7.0 MILLION TONS WOULD BE CORN, DURING CURRENT CROP YEAR. WE BASE THESE FIGURES ON CONVERSATIONS DURING LARDINOIS VISIT IN AUGUST. EC SIDE (SOAMES) INDICATED THAT COMMISSION ESTIMATE OF EC NEEDS HAD INCREASED SUBSEQUENT TO LARDINOIS VISIT OWING TO LOWER THAN ANTICIPATED EC CORN HARVEST. BUTZ REMARKED THAT US HARVEST EXPECTATIONS HAD ALSO DECLINED. SOAMES SAID THAT THE EC HAD THOUGHT THAT SECRETARY BUTZ HAD ACCEPTED A HIGHER TOTAL FIGURE OF 8.0-8.5 MILLION TONS OF CORN DURING HIS NOVEMBER VISIT TO BRUSSELS. IN THEIR MEETING, BUTZ TOLD SOAMES THAT HE HAD UNDERSTOOD 8.0 FIGURE PRESENTED IN NOVEMBER TO BE REFERENCE TO TOTAL EC FEED GRAIN REQUIREMENTS, NOT JUST CORN. BUTZ AND SOAMES THEN TURNED TO PROJECTION OF TOTAL EC IMPORTS BASED ON BEST CURRENT AVAILABLE INFORMATION. ALTHOUGH PRECISION IS DIFFICULT, FIGURES FOR FIRST FOUR MONTHS (AUGUST-NOVEMBER) OF EC CORN MARKETING YEAR INDICATE THAT EC IMPORTS OF CORN FROM US TO DATE MAY BE RUNNING AT LESS THAN 7 MILLION TON ANNUAL FIGURE. THEY AGREED THAT THE ESSENTIAL WAS TO CONTINUE MONITORING THESE FIGURES CLOSELY AND TO HAVE FURTHER DISCUSSION IMMEDIATELY SHOULD A SHARP INCREASE APPEAR. SOAMES SAID THAT, IN SUCH AN EVENT, THE EC WOULD BE PREPARED TO TAKE APPROPRIATE MEASURES FURTHER TO RESTRAIN IMPORTS. EC SIRE (RABOT) ALSO INDICATED IT WOULD UNDERTAKE AN IMMEDIATE REVIEW OF HARVEST AND IMPORT FIGURES AND WOULD BE BACK IN TOUCH. IN A MEETINM WITH SECRETARY SIMON, SOAMES REPEATED HIS STATEMENT THAT THE EC HAD UNDERSTOOD IT COULD IMPORT UP TO 8.0 MILLION TONS OF CORN. SIMON AND SOAMES ALSO REAFFIRMED THE BUTZ-SOAMES AGREEMENT TO FOLLOW THE SITUATION CLOSELY.

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10. EAST/WEST RELATIONS. ASSISTANT SECRETARY HARTMAN REPORTED ON HIS RECENT DISCUSSIONS IN BUCHAREST WHERE THE ROMANIANS INDICATED INTEREST IN RELATIONS WITH THE EC,

BUT WANTED TO MAINTAIN BILATERAL RELATIONS WITH THE MEMBER STATES. THE ROMANIANS ALSO TOLD US THAT THEY HAD GRANTED ONLY LIMITED AUTHORITY TO CEMA TO BEGIN TALKING WITH THE EC. HARTMAN SAID THAT BOTH THE US AND THE EC SHOULD MAKE SURE THAT THE USSR AND EASTERN EUROPEAN STATES UNDERSTAND THAT AS THEY INCREASED THEIR PARTICIPATION IN THE INTERNATIONAL SYSTEM THEY WOULD BE EXPECTED TO OBSERVE THE RULES OF THE SYSTEM.

SOAMES REPORTED THAT THE COMMISSION HAS INDICATED TO CEMA SECRETARY GENERAL FADEYEV THAT AN EXCHANGE OF INFORMATION ON THE ENVIRONMENT AND STATISTICS MIGHT BE GOOD BASIS FOR BEGINNING DISCUSSIONS. SOAMES REPORTED THAT AT THE SAME TIME THE COMMISSION HAD DELIVERED--NOT WITHOUT DIFFICULTY--LETTERS TO THE EASTERN EUROPEAN COUNTRIES REGARDING THE APPLICATION OF THE COMMON COMMERCIAL POLICY TOWARD THE STATE-TRADING COUNTRIES AFTER JANUARY 1, 1975. THE INTENT OF THESE LETTERS WAS TO MAKE CLEAR THAT THE EC WAS NOT CORING THE EASTERN EUROPEANS TO CHANNEL THEIR RELATIONS WITH THE EC THROUGH THE SOVIET-DOMINATED CEMA.

11. EURO-ARAB DIALOGUE. EC SIDE (WELLENSTEIN) REPORTED THAT DIALOGUE HAS NOT PROGRESSED BEYOND ONE PREPARATORY MEETING IN CAIRO. AT THAT MEETING EC HAD INDICATED SOME FIELDS IN WHICH IT THOUGHT IT MIGHT BE ABLE TO HELP THE ARABS: AGRICULTURE, COMMERCIAL/INDUSTRIAL DEVELOPMENT, INFRASTRUCTURE, FINANCIAL AND CULTURAL COOPERATION. THE FIRST MEETING OF THE GENERAL COMMISSION HAS BEEN POSTPONED DUE TO THE ARAB REQUEST FOR PLO PARTICIPATION. AT FIRST IT WAS THOUGHT THAT THIS ISSUE MIGHT BE CIRCUMVENTED TEMPORARILY BY HOLDING A MEETING WITH RESTRICTED MEMBERSHIP. THE ARABS HOWEVER CHANGED THEIR MIND AND INDICATED THAT THE PRINCIPLE OF PLO PARTICIPATION MUST BE ADDRESSED. THE ARABS HAVE AGREED TO MEET IN PARIS THIS MONTH TO SEE HOW THE DIALOGUE MIGHT GO FORWARD.

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HARTMAN INDICATED OUR INTEREST IN FOLLOWING THIS INITIATIVE WHICH SO FAR SEEMS TO CONFIRM OUR DOUBTS ABOUT TRYING TO DEAL WITH THE ARABS ON A COLLECTIVE RATHER THAN INDIVIDUAL BASIS. SOAMES ASKED WHETHER OR NOT WE WERE SATISFIED WITH THE FLOW OF INFORMATION ON THIS ISSUE. HARTMAN REPLIED AFFIRMATIVELY. HE MENTIONED THAT WE HAD TALKED TO THE FRENCH ABOUT MORE REGULAR CONTACT WITH THE EC-9, BUT FRANCE HAD NOT LIKED THE IDEA OF REGULAR MEETINGS WITH THE POLITICAL DIRECTORS.

12. PORTUGAL. US SIDE (HARTMAN) REPORTED THAT IT WAS OUR FEELING THAT IT WAS IMPORTANT FOR THE U.S., EC AND INTERNATIONAL LENDING INSTITUTIONS TO DO SOMETHING TO HELP PORTUGAL DURING THIS CURRENT PERIOD OF FLUX. WE RECENTLY SENT A TEAM TO LOOK AT REQUESTS FOR ASSISTANCE. THE RESULTING REPORT INDICATED NEED FOR PROJECTS THAT COULD GIVE EMPLOYMENT TO TROOPS RETURNING FROM AFRICA AND IDENTIFIES TWO PROJECTS IN HOUSING AND RAILROAD EXPANSION AS PARTICULARLY INTERESTING. WE OFFERED TO BRIEF EC DELEGATION FURTHER ON THIS SUBJECT. SOAMES REPORTED THAT THE COMMUNITY SIMILARLY FELT IT SHOULD MAKE A POLITICAL GESTURE. THE PORTUGUESE HAVE ASKED THE EC FOR ACCESS TO THE EUROPEAN INVESTMENT BANK, IMPROVED CONDITIONS FOR PORTUGUESE WORKERS EMPLOYED IN EC MEMBER STATES AND A DELAY IN DISMANTLING OF PORTUGUESE TARIFF AS CALLED FOR BY THE EC-PORTUGUESE FREE TRADE AREA AGREEMENT. SOAMES REPORTED THAT THE COMMUNITY WAS SURPRISED BY THE MODESTY OF THE REQUEST AND WAS WORKING TO SEE HOW IT COULD RESPOND POSITIVELY.

13. GREECE/TURKEY/CYPRUS. US SIDE (HARTMAN) SUMMARIZED OUR CONCERN REGARDING THE RETURN OF MAKARIOS TO CYPRUS, THE UNSTABLE POLITICAL SITUATION IN TURKEY, AND THE NEED TO HELP THE KARAMANLIS GOVERNMENT BUILD DEMOCRATIC INSTITUTIONS IN GREECE. SOAMES REPORTED THAT IN THEIR MEETING WITH THE GREEKS EARLIER IN THE WEEK, THE EC HAD NOT BEEN ABLE TO GIVE EVERYTHING REQUESTED, BUT HE FELT THE GREEKS HAD GONE AWAY RELATIVELY SATISFIED. THE COMMUNITY HAD DECIDED TO INCLUDE CYPRUS AS A RECIPIENT OF FOOD AID FOR THE FIRST TIME NEXT YEAR. THE FOOD AID WAS CONDITIONED ON IT BEING DISTRIBUTED THROUGHOUT THE LIMITED OFFICIAL USE

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ENTIRE ISLAND.

14. STATUS OF ACP AND MEDITERRANEAN NEGOTIATIONS. EC SIDE INDICATED THAT COMMUNITY EXPECTED TO BE ABLE TO EXCHANGE A DRAFT CONVENTION WITH THE ACP COUNTRIES IN TIME FOR THEM TO EXAMINE IT AT THEIR MEETING IN DAKAR DECEMBER 17-19 SO THAT NEGOTIATIONS COULD BE COMPLETED LATER THIS MONTH OR IN JANUARY. ALMOST ALL ISSUES ARE RESOLVED EXCEPT: THE AMOUNT OF FINANCIAL S R TO BE PROVIDED THROUGH THE EUROPEAN DEVELOPMENT FUND; INSTITUTIONAL ARRANGEMENTS AND SUGAR. THE COMMUNITY CHARACTERIZED THE EXHORT EARNING STABILIZATION SCHEME AS ALMOST SETTLED. REFLECTING ON PAST US CONCERNS ABOUT THE COMMUNITY'S ASSOCIATION AGREEMENTS WITH DEVELOPING COUNTRIES, SOAMES INDICATED THESE ARRANGEMENTS WERE NOT INTENDED TO OBTAIN SOME TRADE ADVANTAGE, BUT AS PART OF "BURDEN SHARING" AND AS CONTRIBUTING TO STABILITY

OF BLACK AFRICA. WITH REVERSE PREFERENCES RESOLVED AS AN ISSUE, HE ASKED WHETHER THE US DID NOT AGREE WITH THIS ASSESSMENT. HARTMAN EXPRESSED AGREEMENT. HE ALSO ASKED THAT THE EC CONTINUE TO KEEP US INFORMED AS IT WORKED OUT AN ARRANGEMENT FOR EXPORT EARNINGS STABILIZATION. WITH REGARD TO THE MEDITERRANEAN, SOAMES INDICATED THAT THE EC COULD SIGN AGREEMENTS TOMORROW WITH ISRAEL, TUNISIA AND MOROCCO. THE SITUATION ALSO LOOKED GOOD WITH REGARD TO ALGERIA. SPAIN AND MALTA ARE THE PROBLEMS. SOAMES EXPRESSED HOPE THAT SPANIARDS WOULD COME BACK WITH A PROPOSAL THAT THE EC COULD ACCEPT. GLITMAN BRIEFLY REVIEWED CASEY FIVE POINTS. HE EMPHASIZED US PRAGMATISM RE EC ARRANGEMENTS WITH ACP AND MEDITERRANEAN COUNTRIES WAS BASED NOT ONLY AN END TO REVERSE PREFERENCES BUT ALSO ON EC ASSURANCES RE ENDING FURTHER PROLIFERATION AND EC WILLINGNESS TO SEEK SOLUTIONS TO PROBLEMS CAUSED BY SPECIAL PREFERENCES.

15. COORDINATION OF POSITIONS ON LDC ISSUES IN UN AND OTHER FORA. U.S. SIDE (GLITMAN AND IO) GAVE PRESENTATION STRESSING NEED TO MAINTAIN CLOSEST POSSIBLE US-EC CONSULTATION DURING PERIOD WHEN LDC POSITION ON ECONOMIC ISSUES WAS SOLIDIFYING IN ORDER TO HEAD OFF STEAMROLLER. WE MENTIONED UPCOMING MEETING OF UNCTAD COMMODITIES LIMITED OFFICIAL USE

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COMMITTEE, UNIDO CONFERENCE, REVIEW OF THE INTERNATIONAL DEVELOPMENT STRATEGY AND NEXT UNGA SPECIAL SESSION AS EXAMPLES THAT WOULD ARISE IN COMING YEAR. U.S. NOTED USEFULNESS OF OECD FOR THIS PURPOSE AND SAID WE WOULD LIKE TO SEE THIS CONTINUE. U.S. SIDE NOTED THAT COMMISSION HAD BEEN VERY COOPERATIVE ON THESE ISSUES, AND THAT WE ALSO PLAN TO CONTINUE INTENSIVE BILATERAL CONSULTATIONS.

EC SIDE (WELLENSTEIN) AGREED WITH OUR APPROACH AND MADE POINT THAT STRONGER AND MORE TIMELY REPRESENTATIONS IN LDC CAPITAL MIGHT HELP. HE NOTED THAT LDC DELEGATES IN UN OFTEN OPERATED UNDER VERY FREE INSTRUCTIONS AND THAT CAPITALS WERE SOMETIMES QUITE UNAWARE OF ISSUES. EC SIDE ALSO NOTED THAT ITS CABLES TO DELEGATIONS ALWAYS CONTAINED INSTRUCTIONS TO CONSULT WITH AMERICANS. ON USE OF OECD, EC SUGGESTED THAT WE CONTINUE ON LOW-KEY AD HOC BASIS AND AVOID ESTABLISHMENT OF FORMAL PROGRAM OF CONSULTATIONS. EC SIDE SUGGESTED THAT SITUATION IN UN ON THESE ISSUES WAS APT TO DETERIORATE AND WE COULD EXPECT THE STEAMROLLER TO BE USED MORE AND MORE. DEVELOPED COUNTRY POSITION HAS SEEMED TO BE ESSENTIALLY NEGATIVE
-- WAITING FOR AN LDC INITIATIVE

TO COALESCE AND THEN OPPOSING IT. DEVELOPED COUNTRIES MUST WORK OUT SOME MORE POSITIVE PROGRAM OF OUR OWN THAT WE CAN USE AS A COUNTER TO UNACCEPTABLE LDC PROPOSALS. EC SAID THAT THEY HAD PLANS TO DEVELOP SUCH AN APPROACH FOR THE UNGA SPECIAL SESSION. BOTH SIDES NOTED THAT THIS IS AN APPROPRIATE TOPIC FOR THE NEXT SEMI-ANNUAL CONSULTATIONS.

16. DEVELOPMENT ASSISTANCE. EC SIDE (DE SEDOUY) REVIEWED ITS DEVELOPMENT POLICIES BRIEFLY, STRESSING THAT COMMUNITY WAS DIVERSIFYING NOT ONLY GEOGRAPHIC SCOPE OF ITS AID, BUT DIVERSIFYING TOOLS OF ITS AID POLICY. LATTER WAS NECESSARY SINCE DEVELOPING WORLD WAS NOT MONOLITHIC AND NEEDS OF NEWLY RICH OIL PRODUCERS WERE DIFFERENT FROM THOSE OF MSA'S. EC SIDE EXPRESSED VITAL INTEREST IN WHETHER OR NOT U.S. WOULD BE MAKING ANY ADDITIONAL CONTRIBUTIONS TO MSA'S UNDER UN LIMITED OFFICIAL USE

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EMERGENCY OPERATION SINCE EC ABILITY TO MAKE FURTHER COMMITMENTS ON ITS ANNOUNCED 500 MILLION DOLLAR CONTRIBUTION TO THE MSA'S WOULD BE CONTINGENT ON PROPORTIONATE COOPERATION FROM OTHER DONORS. U.S. SIDE (KATZ) REPLIED THAT OUR TOTAL AID WILL BE ONE BILLION DOLLARS, SOME OF WHICH WOULD BE ADDITIONAL. THIS WOULD BE IN FOOD AID AND AGRICULTURAL ASSISTANCE. OUR FOOD AID IS ALREADY RUNNING AT A HIGHER RATE, BUT WE ARE PROCEEDING IN A MEASURED WAY SO AS NOT TO COMPOUND THE MARKET PROBLEM AND CANNOT AT THIS TIME SAY HOW MUCH ADDITIONAL FOOD AID THERE WILL BE. HE CITED FOOD AID AS AN ADDITIONAL REASON WHY WE ARE SEEKING EC COOPERATION ON MONITORING GRAIN IMPORTS. WE PROVIDED THE EC SIDE WITH A COPY OF THE LETTER THAT WE HAD DELIVERED TO PREBISCH REGARDING OUR CONTRIBUTIONS.

17. RELATIONS WITH CANADA.
EC SIDE (WELLENSTEIN) REVIEWED CANADA'S RECENT EFFORTS TO OBTAIN A CONTRACTUAL LINK WITH COMMUNITY. HAVING FAILED TO INTEREST EC IN BILATERAL TRADE AGREEMENT, CANADIANS WERE NOW EXPLORING POSSIBILITY OF COOPERATION AGREEMENT. WELLENSTEIN SAID THAT NOTHING MUCH HAS HAPPENED SINCE TRUDEAU VISIT, BUT EC UNDERSTANDS CANADIANS' DESIRE AND WOULD BE STUDYING WAYS IN COMING MONTHS TO ACHIEVE MEANINGFUL COOPERATION. HARTMAN NOTED THAT WE HAD EXPRESSED CONCERN ABOUT THE PROPOSED EC-CANADIAN TRADE AGREEMENT TO BOTH EC AND CANADA AND HOPED THAT WE COULD CONTINUE TO KEEP IN TOUCH ON THE PROPOSED COOPERATION AGREEMENT. U.S. SIDE (HARTMAN) INDICATED OUR UNDERSTANDING OF CANADA'S DESIRE TO

DIVERSIFY ITS FOREIGN RELATIONS. HE NOTED SOME OF OUR BILATERAL PROBLEMS, E.G. AGRICULTURE AND ENERGY, AND OUR INTEREST IN FINDING A MECHANISM THAT COULD IDENTIFY AND SEEK SOLUTIONS TO SPECIFIC PROBLEMS.

18. RELATIONS WITH JAPAN. EC SIDE REVIEWED THEIR UNSUCCESSFUL EFFORTS TO OBTAIN A JAPANESE-EC TRADE AGREEMENT. AS FALLBACK SOLUTION, THEY ARE NOW TRYING TO BRING MEMBER STATES' BILATERAL AGREEMENTS UNDER AN EC DISCIPLINE BY REQUIRING THAT ANY CHANGES IN A LIMITED OFFICIAL USE

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BILATERAL AGREEMENT RECEIVE COMMUNITY APPROVAL. US SIDE (COMMERCE DEPUTY ASSISTANT SECRETARY FOX) ASKED WHETHER THE EC WAS CONSIDERING ANY SAFEGUARD ACTION ON JAPANESE AUTOMOBILE IMPORTS AND STATED THAT US WOULD VIEW ANY SUCH MEASURE WITH CONCERN. THEY REPLIED THAT THERE WERE NO SUCH ACTIONS ENVISIONED.

19. INDUSTRIAL POLICY. US SIDE (FOX) COMMENTED ON OUR SATISFACTION WITH THE USEFUL DISCUSSION OF INDUSTRIAL POLICY ISSUES WE HAD WITH THE COMMISSION LAST OCTOBER IN BRUSSELS. US SIDE STATED THAT WE WOULD WELCOME FURTHER EXCHANGES OF VIEWS WHENEVER EITHER SIDE FELT THEM DESIRABLE AND EC EXPRESSED AGREEMENT. FOX REPEATED EMPHASIS HE HAD GIVEN AT OCTOBER MEETING ON MOVING QUICKLY IN THE MTN TO OBTAIN AGREEMENTS ON GOVERNMENT PROCUREMENT, STANDARDS, AND SUBSIDIES.

20. EC-IRANIAN TRADE RELATIONS. U.S. SIDE (HARTMAN) REITERATED OUR UNHAPPINESS WITH IRANIAN DESIRE FOR PREFERENTIAL TRADE ARRANGEMENT WITH EC AND OUR APPRECIATION FOR COMMISSION'S EFFORTS TO STEER THE COMMUNITY TOWARDS A NON-DISCRIMINATORY AGREEMENT. EC SIDE (WELLENSTEIN) WAS SYMPATHETIC TO OUR CONCERN AND INDICATED THAT IT WOULD KEEP US INFORMED OF DEVELOPMENTS.

21. EC BEEF POLICY. U.S. SIDE EXPRESSED CONCERN ABOUT EC'S BEEF IMPORT BAN WHICH COULD RESULT IN EC'S TRADITIONAL SUPPLIERS DIVERTING THEIR EXPORTS TO U.S. THIS, IN TURN, COULD INTENSIFY PRESSURES WITHIN U.S. FOR IMPORT CONTROLS. EC SIDE EXPRESSED AWARENESS AND UNDERSTANDING, BUT SAID THEY FELT THEY HAD NO ALTERNATIVE COURSE OF ACTION. BOTH SIDES NOTED THAT AUSTRALIA WOULD BE A KEY FACTOR. EC EXPRESSED THE HOPE THAT BY TIME AUSTRALIANS WOULD HAVE TO DECIDE WHAT TO DO WITH THEIR CATTLE NEXT SPRING, THAT SITUATION IN EC SHOULD BE SUFFICIENTLY IMPROVED TO ALLOW SOME LOWERING OF RESTRICTIONS BUT WAS NOT AT ALL CONFIDENT THAT THIS

WOULD BE THE CASE; ELIMINATING THE EC IMPORT BAN BY JANUARY WAS OUT OF THE QUESTION.

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22. WINE. US SIDE (MALMGREN) REPORTED THAT USG HAS REACHED DECISION ON REGULATIONS FOR MANDATORY METRIC STANDARDS OF FILL FOR WINE BOTTLES. HAVING TAKEN INTO CONSIDERATION VIEWS OF VARIOUS INTERESTED PARTIES INCLUDING THE COMMISSION AND THE EC MEMBER STATES, WE HAVE REACHED WHAT WE FEEL IS A REASONABLE COMPROMISE FOR A TRANSITION PERIOD--WHICH WILL NOW END JANUARY 1, 1979. EC SIDE (WELLENSTEIN) NOTED THAT THE GERMANS AND LUXEMBOURG HAD WANTED A FIVE-YEAR TRANSITION, BUT INDICATED SATISFACTION WITH OUTCOME AND READINESS TO CONVINCE GERMANS TO LIVE WITH THE US DECISION.

US SIDE (GL TMANGL) ACKNOWLEDGED THE RECENT EC DECISION TO SUSPEND APPLICATION OF EC CERTIFICATION REQUIREMENTS ON US WINE EXPORTS FOR ANOTHER SIX MONTHS BEGINNING JANUARY 1, 1975. WHILE THIS WAS HELPFUL, IT DID NOT END THE UNCERTAINTY ABOUT CONTINUED EXEMPTIONS. A LONG TERM SOLUTION WAS CLEARLY DESIRABLE. US SIDE (MALMGREN) EXPLAINED THAT THE NEW EC REGULATIONS ON CERTIFICATION AND LABELING, PLUS US INDUSTRY REPRESENTATIONS, HAD CAUSED USG TO BEGIN A STUDY OF THE PROBLEMS FACED BY THE WINE INDUSTRY IN EXPORTING TO THE EC. WE CONVEYED VIEWS OF MANY PEOPLE IN US WINE INDUSTRY WHO FELT THAT IF EC MADE IT DIFFICULT FOR US WINES TO ENTER EC, US SHOULD COUNTER WITH SIMILAR MEASURES. EC SIDE (RABOT) SAID THAT COMMISSION HAS PROPOSED TO COUNCIL OF MINISTERS A NEW REGULATION THAT WOULD GIVE US A PERMANENT EXEMPTION FROM CERTIFICATION REGULATIONS USING SUCH SPECIFIC CRITERIA AS ACIDITY, STRENGTH OF ALCOHOL, VOLUME, ETC. WE EXPRESSED INTEREST IN SEEING THIS REGULATION AND CONCERN THAT ANY LINK TO VOLUME WOULD BE UNACCEPTABLE. WELLENSTEIN NOTED THAT THE PROBLEM MIGHT BE HELPED IF US WOULD CONFORM TO INTERNATIONAL WINE STANDARDS. MALMGREN POINTED OUT THAT THERE WERE SEVERAL GROUPS THAT MADE WINE STANDARDS AND SUGGESTED THE USEFULNESS OF TECHNICAL TALKS. WELLENSTEIN EXPRESSED VIEW THAT LONG TERM SOLUTION WOULD BE GENERALLY AGREED INTERNATIONAL STANDARDS, BUT IN MEANTIME, WE WOULD NEED TO FIND SOME TEMPORARY SOLUTION. IT WAS AGREED THAT WE BOTH NEEDED TO STUDY SITUATION FURTHER, THEN COME TOGETHER TO EXPLORE ISSUE. COMMISSION

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(LOERKE) PROMISED TO SEND COPY OF PROPOSED EXEMPTION THROUGH USEC AND WE PROMISED TO REACT. LOERKE ALSO AGREED TO PROVIDE NAMES OF INTERNATIONAL WINE STANDARDS-MAKING GROUPS REFERRED TO BY WELLENSTEIN.

23. MINIMUM IMPORT PRICES XKMIPS). US SIRE (MALMGREN) INDICATED ITS OPPOSITION TO THE EC'S PROPOSED SYSTEM OF MINIMUM IMPORT PRICES ON CERTAIN FRUITS AND VEGETABLES (MIP'S). EC SIDE (WELLENSTEIN) MADE ARGUMENT THAT PROPOSED SYSTEM WOULD ACTUALLY AID US EXPORTS BY DISCRIMINATING AGAINST CHEAPER COMPETITION. US SIDE COUNTERED THAT PROPOSED SYSTEM WOULD ESTABLISH MECHANISM THAT COULD EASILY BE USED TO DISCRIMINATE AGAINST US EXPORTS BY RAISING FLOOR PRICE. MOREOVER, US SIDE NOTED THAT INTERNATIONAL PRICING STRUCTURE COULD NOT BE EXPECTED TO REMAIN CONSTANT. MALMGREN SAID THAT MIP SYSTEM WOULD BREACH GATT BINDINGS, FORCING US TO TAKE ACTION. WELLENSTEIN ANSWERED THAT THERE WERE TWO COURSES OF ACTION: TO LET MIP ISSUE BLOW UP INTO A BIG POLITICAL ISSUE ON PHILOSOPHICAL BASIS OR TO TRY TO HANDLE IT ON AN ACTUAL TRADE DAMAGE BASIS.

24. EC EXPORT SUBSIDIES ON APPLES. ISSUE OF EC SUBSIDIES ON APPLE EXPORTS TO ICELAND, SWEDEN AND FINLAND WAS RAISED BY US SIDE (USDA FAS ASSISTANT ADMINISTRATOR FRASER). EC SIDE (RABOT) WAS NOT PREPARED TO DISCUSS AT CONSULTATIONS, BUT AGREED TO LOOK FURTHER INTO THE MATTER AND DISCUSS FURTHER AT A LATER TIME.

25. RULES OF ORIGIN. US SIDE (FOX) REITERATED OUR DISSATISFACTION WITH THE EC/EFTA RULES OF ORIGIN AND MADE POINT THAT WHILE WE COULD DEAL WITH PARTICULAR PROBLEMS AS THEY AROSE, WE ANTICIPATED THAT SUCH PROBLEMS WOULD ARISE WITH INCREASING FREQUENCY. WE WOULD HOPE THAT A MORE FUNDAMENTAL SOLUTION COULD BE EVENTUALLY WORKED OUT--SOMETHING SIMPLER PERHAPS ALONG THE LINES OF THE OLD EFTA RULES OF ORIGIN WHICH WE FOUND QSIT

SATISFACTORY. YELLENSTEIN RESPONDED THAT COMMISSION WOULD CONTINUE TO TRY TO MAKE CHANGES HERE AND THERE THAT WOULD STREAMLINE THE RULES OF ORIGIN, BUT THAT IT LIMITED OFFICIAL USE

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WOULD BE UNREALISTIC TO EXPECT ANY FUNDAMENTAL CHANGES IN THE NEAR FUTURE. HE STATED THAT RULES OF ORIGIN HAVE COME UP IN THE ACP CONTEXT AND THAT WHOLE SUBJECT IS IN A STATE OF FLUX. TO PUSH FOR A WHOLESALE APPROACH WOULD NOT ACHIEVE SIMPLIFICATION. IT MUST BE DONE GRADUALLY.

26. POULTRY. US SIDE EXPRESSED CONCERN OVER HOW RECENT INCREASES OF TURKEY GATE PRICES TRANSLATED INTO INORDINATE INCREASES IN AD VALOREM TERMS TO TURKEY PARTS. WE SAID WE WERE HURT BOTH BY THE LEVEL OF THE INCREASES AND BY THE FACT THAT SUPPLEMENTAL LEVY WAS UNPREDICTABLE AND COULD BE INCREASED VERY RAPIDLY DISRUPTING SHIPMENTS AND DEALS ALREADY IN PROCESS. US SIDE INDICATED THERE IS POLITICAL PRESSURE TO PUT ON EXPORT CONTROLS ON GRAIN AGAINST COUNTRIES WHICH RESTRICT ACCESS ON POULTRY. THE EC SIDE SAID THAT THEY WERE OPERATING UNDER LEGISLATION, AND THAT THEY HAD TRIED TO BE MODERATE IN THEIR APPLICATION OF THESE LAWS. RABOT SAI\$

THAT IN CALCULATING MOINTU FOR SOME TURKEY PARTS, THE COMMISSION HAD ONLY APPLIED ABOUT HALF THE DIFFERENCE BETWEEN THE GATE PRICE AND THE US OFFER PRICE. HE SAID THAT FOR SOME ITEMS, THE US WAS THE ONLY SUPPLIER AND THAT EXPORTERS COULD RECEIVE MORE MONEY BY SIMPLY RAISING PRICES. US (FRASER) REPLIED THAT US EXPORTERS OPFRATE IN COMPETITIVE FRAMEWORK AND USG COULD NOT INFLUENCE PRICES THEY OFFERED. THE EC SIDE (RABOT) CONCEDED THAT THERE MAY BE SOME INEQUITY IN THE TRANS-POSITION OF GATE PRICES TO PRICES FOR PARTS. IT WAS AGREED THAT TECHNICAL LEVEL DISCUSSIONS WOULD TAKE PLACE EARLY IN JANUARY TO DISCUSS THE PROBLEM.

27. CONCLUDING REMARKS/OUTSTANDING ISSUES. BOTH SIDES AGREED ON THE VALUE OF CONSULTATIONS IN RESOLVING IRRITANTS BEFORE THEY BECOME POLITICAL PROBLEMS. AT CLOSE OF OFFICIAL LEVEL TALKS, EC SIDE (WELLENSTEIN) SAID THEY TOO HAD LIST SIMILAR TO THAT RAISED BY US DECEMBER 6, WHICH INCLUDED SUCH THINGS AS FLY US FLAG POLICY, TANKER PREFERENCE, GAS CYLINDERS, FERROUS SCRAP, LIMITED OFFICIAL USE

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DISC AND MORE. EC HOPED THAT SUCH PROBLEMS COULD BE HANDLED WITHOUT RECRIMINATION. EC SIDE ALSO NOTED THAT THER WERE SOME ITEMS NOT DEALT WITH: OECD TRADE PLEDGE, HANDLING OF THE ACP AGREEMENTS IN THE GATT AND THE FINNISH-EASTERN EUROPEAN FREE TRADE AGREEMENTS. IT WAS AGREED THAT BOTH SIDES WOULD TRY TO ORGANIZE A DAY TO TALK ABOUT TRADE ISSUES IN BRUSSELS PRIOR TO THE PRE-TNC JANUARY 21 MEETING IN GENEVA. INGERSOLL UNQUOTE INGERSOLL

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